CITY OF SAN JOSÉ, CALIFORNIA

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GERALD A. SILVA
City Auditor

June 15, 1987

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on *An Audit of the City and Redevelopment Investment Program.* This report is in accordance with City Charter Section 805(a).

An Executive Summary is presented on the blue papers in the front of this report while an Administration response is shown on the yellow pages.

I will present this report to the Finance Committee at its June 17, 1987 meeting. If you need additional information in the interim, please let me know. City Auditor staff who participated in the preparation of this report are Joe Morical, Dominador Melendez, and Fred Casuga.

Respectfully submitted,

Gerald A. Silva
City Auditor

GS:mlt
EXSUM034

cc: Gerald Newfarmer, City Manager
Les White, Assistant City Manager
Edward Schilling, Director of Finance
Susan George, Deputy City Manager
Deborah Kelley, Chief of Treasury
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Sharon Garrison, Director of Fiscal and Administrative Services
Joan Gallo, City Attorney

OFFICE OF THE

CITY AUDITOR

AN AUDIT OF THE CITY AND REDEVELOPMENT INVESTMENT PROGRAM

A REPORT TO THE

SAN JOSE

CITY COUNCIL

86-28

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EXECUTIVE SUMMARY

Our review of the Management of the City and Redevelopment Agency Portfolios disclosed several approaches which could enhance portfolio yields without creating undue risk. Given the City's budget condition, all reasonable opportunities to enhance City revenues by increasing portfolio earnings should be considered. Accordingly, we have identified the following:

- The City has foregone between $1.4 and $2.8 million per year in potential earnings by maintaining a more conservative investment position than risk or liquidity considerations require.
- The current investment policy needs to be changed to enhance Treasury's ability to manage the City and Redevelopment Agency portfolios.
- Merging the City and Redevelopment Agency portfolios into a single investible portfolio would increase earnings.

The City Has Foregone Between $1.4 and $2.8 Million Per Year In Potential Earnings By Maintaining a More Conservative Investment Position Than Risk Or Liquidity Considerations Require

During 1986, the City Portfolio averaged 244 days to maturity and the Redevelopment Agency 64 days. However, the City's investment policy allows for a significantly longer portfolio maturity period. By investing a significant portion of both portfolios for longer periods, it appears that the City and Redevelopment Agency can increase portfolio yields 25-50 basis points and earn an additional $1,400,000 to $2,800,000 per year. Such additional earnings can be realized without violating the City's basic investment tenets of safety and liquidity.

The Current Investment Policy Needs to be Changed to Enhance Treasury's Ability to Manage the City and Redevelopment Agency Portfolios

The City's Investment Policy generally requires Treasury to hold securities in the City and Redevelopment Agency portfolios to maturity. While such a policy precludes capital losses, it also creates lost opportunity costs by preventing the replacement of low yielding securities with higher yielding securities. During the last two years, this "buy and hold" policy has been relatively neutral because of declining and subsequently stable interest rates. However, should interest rates increase, this policy will preclude Treasury from eliminating poor performing investments and reinvesting in higher performing instruments. This may result in future substantial lost opportunity costs to the City.

Merging the City and Redevelopment Portfolios Into a Single Investible Portfolio Would Increase Earnings

In calendar year 1986, the Redevelopment Agency's portfolio earned an average yield of 6.9%, whereas the City's portfolio averaged 8.0%, a difference of 1.1% or 110 basis points. The Agency's portfolio would have earned an additional $1,276,000 in 1986 had its earnings matched the City's. By combining the City and Redevelopment Agency investment portfolios, 1) Treasury would provide additional protection against short-term cash shortages in the Redevelopment Agency's portfolio and 2) Redevelopment yield rates could be increased to a level approaching that of the City's.

RECOMMENDATIONS

We recommend that:

Recommendation #1:

Treasury analyze the City and Redevelopment Agency portfolios and develop a strategy to extend the average maturities of these portfolios when appropriate investment opportunities become available.

Recommendation #2:

The internal and external investment committees consider extending the current investment policy restrictions for investment maturities.

Recommendation #3:

The City's internal and external investment committees consider easing the City's investment policy on holding investments to maturity to allow sales of certain investments when it can be demonstrated that it is in the City's best interest to do so.

Recommendation #4:

The Administration determine if there is any legal impediment to merging the portfolios. If not, the Administration should initiate merging the City and Redevelopment portfolios for investment purposes.

INTRODUCTION

In accordance with the City Auditor's approved 1986-87 Workplan, we have completed an audit of the City and Redevelopment Agency investment programs. This is the first of two reports on these investment programs. As part of our second report, we will include a review of the investment programs for compliance with the City's investment policy. This compliance review will replicate the reviews this Office initiated in the fall of 1985.

Given the current condition of the City's general fund, we have focused this report on those policies and procedures that impair the performance of the City and Redevelopment Agency investment programs. Specifically, we have given special attention to opportunities to substantially increase the investment earnings of the City and Redevelopment investment portfolios. Slow economic growth and tight budgets lend increased importance to all prudent means of increasing revenue. Thus, this report discusses methods to increase investment earnings without creating undue risk.

BACKGROUND

The City Treasurer, operating with delegated authority from the Director, Department of Finance, is responsible for investing idle funds of the City and Redevelopment Agency.

Internal and external investment committees develop the City's Investment Policy subject to City Council ratification. The objectives of the City's Investment Policy in priority order are: safety, liquidity and rate of return. Also, State regulations define permissible investments and impose further restrictions on investments. These criteria provide a framework of constraints within which day-to-day investment decisions are made. While these constraints limit the upper range of investment earnings, they also serve to reduce potential credit risk and non-liquidity. As permissible investments are pre-defined, the investment staff is challenged to maximize earnings while providing a reasonable liquidity cushion. From 1983 through 1986 the City's investment portfolio has grown from $302 million to $450 million while the Redevelopment Agency's investment portfolio has grown from $86 million to $112 million.

It should be noted that with an investment portfolio the size of the City of San Jose's, relatively small changes in rates of return on investments can have a profound dollar impact. For example, on a $500,000,000 portfolio, interest earnings will change $2,500,000 per year for every change of 50 basis points (1/2 of 1 percent) on the portfolio's average rate of return. Thus, investment decisions during times of slow economic growth and tight budgets can be crucial.

SCOPE AND METHODOLOGY

In this audit, we reviewed the procedures and controls Treasury follows in making investments. We also compared the configuration of the City and Redevelopment investment portfolio with several of its peers in California. Finally, we contrasted the City's investment performance with other California cities and counties.

FINDING I

THE CITY HAS FOREGONE BETWEEN $1.4 AND $2.8 MILLION PER YEAR IN POTENTIAL EARNINGS BY MAINTAINING A MORE CONSERVATIVE INVESTMENT POSITION THAN RISK OR LIQUIDITY CONSIDERATIONS REQUIRE

During 1986, the City Portfolio averaged 244 days to maturity and the Redevelopment Agency 64 days. However, the City's investment policy allows for a significantly longer portfolio maturity period. By investing a significant portion of both portfolios for longer periods, it appears that the City and Redevelopment Agency can increase portfolio yields 25-50 basis points and earn an additional $1,400,000 to $2,800,000 per year. Such additional earnings can be realized without violating the City's basic investment tenets of safety and liquidity.

Policy Considerations

The City's investment policy, Section I-B, *Time Frame For Investment Decisions*, states in part, "As a general rule, the average maturity of the investment portfolio will not exceed 18 months and no investment will have a maturity of more than three years from its date of purchase." The recommendations we are making may extend the average maturity period to a point that slightly exceeds eighteen months.

Growth of the Investment Portfolios

From 1983 through 1986, the City and Redevelopment Agency investment portfolios have grown approximately $174 million. TABLE I shows the growth of the portfolios over the last four years.

TABLE I

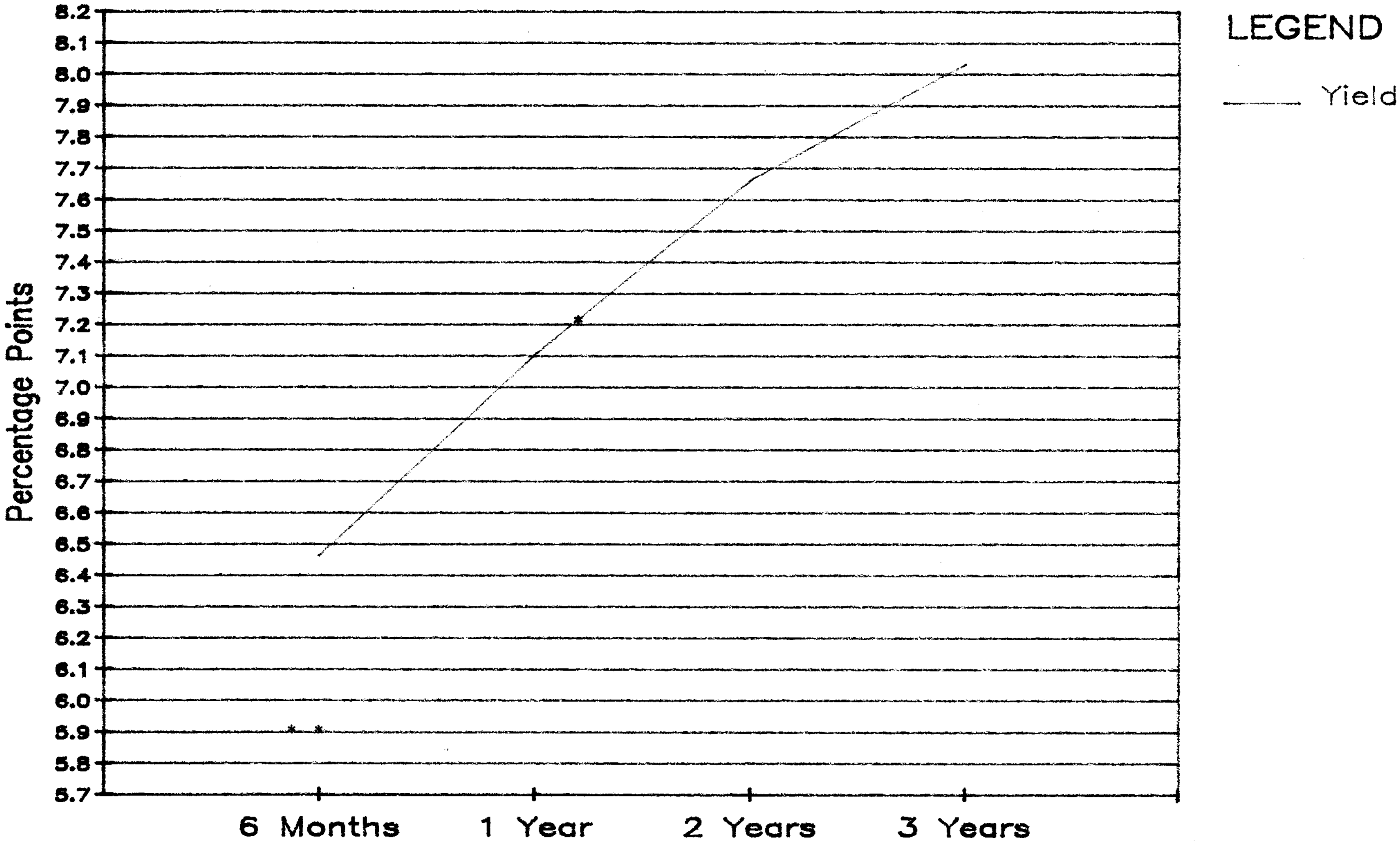
YEAR END PORTFOLIO BALANCES
1983-1986

Year End	*City Portfolio*	*Redevelopment Portfolio*
1983	$302,000,000	$ 86,000,000
1984	308,000,000	123,000,000
1985	389,000,000	142,000,000
1986	450,000,000	112,000,000

This buildup has occurred primarily because revenues are collected more rapidly than they are expended. This is particularly true with Capital Projects where the accomplishment of work projects perpetually lags behind revenues. This has been an ongoing process for several years. As a result, the City and Redevelopment Agency have an opportunity to increase the average maturity periods of their investment portfolios and increase interest earnings.

Treasury staff estimate that about $100-150 million of the City's portfolio could safely be invested for a longer term of two to three years. TABLE II which follows is a current yield curve that shows the interest earnings on investments maturing from six months to three years. We have indicated the April earnings rate for the City and Redevelopment Agency portfolios on the Table.

Table II
Yield Curve As of 5/7/87
Composite of T–Notes, FNMA & FHLB



Note: *City = 7.3%; Redev** = 5.9%

We have estimated a potential annual earnings increase of $1,400,000 to $2,800,000 as the result of an increase of 25 to 50 basis points on the 1986 average balance of the combined portfolios of $560,000,000. We believe this estimate is conservative for the following reasons: 1) A four month increase in average maturity for the Redevelopment Agency portfolio could increase earnings by about 80 basis points or $940,000 per year, 2) as TABLE II shows, the yield spread between one and two years is 65 basis points and 3) the investment of $100-$150 million in two and three year instruments alone would result in a 30-35 basis point increase. Accordingly, we believe a 25-50 point increase on the combined portfolio's is achievable and realistic.

The following Table shows how these increased earnings would be distributed to various City Funds.

TABLE III

DISTRIBUTION OF ADDITIONAL INVESTMENT INCOME

Fund Category	$1,400,000	$2,800,000
General Fund	$ 350,000	$ 700,000
Special Revenue	294,000	588,000
Capital	126,000	252,000
Waste Water	448,000	896,000
Airport	70,000	140,000
Other	112,000	224,000
TOTAL	$1,400,000	$2,800,000

The above distribution of investment earnings to funds is based on the month end balances. This is the same methodology the Administration uses to distribute current investment earnings to approximately 300 different funds.

It should be noted that extending investment maturities does have an element of risk. Specifically, a sudden elimination of back-logged capital projects could result in an immediate need for cash to pay for the projects. In our opinion, this is not a significant risk because the human resources needed to accelerate the capital process are not available or likely to be available in the near future. Further, the City and Agency portfolios' current liquidity cushion rolls forward from year-to-year. Thus, longer term investments are protected as new revenues are received to fund ongoing expenses.

CONCLUSION

The City has foregone annual interest earnings in the range of $1.4 to 2.8 million by maintaining a more conservative investment position than risk or liquidity considerations require. As a result, the internal and external investment committees should consider extending the maturity parameters in the current policy.

RECOMMENDATIONS

We recommend that:

Recommendation #1:

Treasury analyze the City and Redevelopment Agency portfolios and develop a strategy to extend the average maturities of these portfolios when appropriate investment opportunities become available.

Recommendation #2:

The internal and external investment committees consider extending the current investment policy restrictions for investment maturities.

FINDING II

THE CURRENT INVESTMENT POLICY NEEDS TO BE CHANGED TO ENHANCE TREASURY'S ABILITY TO MANAGE THE CITY AND REDEVELOPMENT AGENCY PORTFOLIOS

The City's Investment Policy generally requires Treasury to hold securities in the City and Redevelopment Agency portfolios to maturity. While such a policy precludes capital losses, it also creates lost opportunity costs by preventing the replacement of low yielding securities with higher yielding securities. During the last two years, this "buy and hold" policy has been relatively neutral because of declining and subsequently stable interest rates. However, should interest rates increase, this policy will preclude Treasury from eliminating poor performing investments and reinvesting in higher performing instruments. This may result in future substantial lost opportunity costs to the City.

Active and Passive Investment Strategies

The basic distinction between active and passive investment management strategies is that active management looks for opportunities to outperform market norms. Conversely, passive management accepts market rates as its level of performance. Passive management is generally characterized by making the best investment possible given current market conditions and then holding the investment to maturity. Active managers, on the other hand, look for trading opportunities and buy and sell on a frequent basis. Girard Miller in his book, *Investing Public Funds*, makes the following comments about active and passive investment techniques:

> *"Considerable attention is devoted to the concept of active portfolio management, use of investment strategies designed to increase portfolio values by exceeding market average rates of return. To some extent, the concept of active management represents a fallacy because everybody cannot outperform the market. Most public investment officials do well to simply meet the market average rate of return. Passive strategies may fail to accomplish this goal, however, because they use liquid instruments and routine actions that may not avoid losses or impairment of income under certain circumstances. Therefore, some observers believe that some active portfolio management strategies are necessary just to keep even. Unfortunately, the jury is still out on this verdict."*

The City's Investment Strategy

The City has a passive investment management strategy designed to minimize risk and enhance liquidity. While the basic goal of the City's policy is appropriate, it is possible to modify the City's passive management policy without risking safety or liquidity. To assure safety and liquidity, the City's investment policy contains the following provisions:

- Limiting investments to the safest types of securities.
- Investing primarily in shorter-term securities, limiting the maturity period of the portfolio and capping the maturity period for individual investments.
- Assuring the credit worthiness of institutions with which the City does business.

- o Restricting trading and assuming investments will be held to maturity.

By easing the above restriction on trading, Treasury officials would be able to avoid opportunity losses in certain market conditions. As the policy currently exists, capital losses cannot occur because the City must hold an investment to maturity. However, in conditions of increasing interest rates, it may be in the City's best interest to incur a capital loss by selling a low yielding investment, provided the yield from a replacement investment more than compensates for the loss. When investment officials fail to act, given this type of market circumstance, they incur an opportunity loss every bit as real as a capital loss. The only difference is that the opportunity loss is not reflected in the City's financial statements.

While the City's investment rate of return should be subordinate to safety and liquidity, opportunities do exist to enhance earnings without sacrificing safety and liquidity. For example, we reviewed Treasury's investment decisions during August 1986. Frequently, Treasury was able to obtain yields 5 to 20 basis points above the market rates existing at that time. This was accomplished by placing large investments and shopping with various dealers. We believe Treasury staff have demonstrated the ability to make cost effective trades.

CONCLUSION

The City's Investment Policy regarding the holding of investments to maturity is overly restrictive and can result in lost opportunity costs in the City and Redevelopment Agency investment portfolios.

RECOMMENDATION

We recommend that:

Recommendation #3:

The City's internal and external investment committees consider easing the City's investment policy on holding investments to maturity to allow sales of certain investments when it can be demonstrated that it is in the City's best interest to do so.

FINDING III

MERGING THE CITY AND REDEVELOPMENT PORTFOLIOS INTO A SINGLE INVESTIBLE PORTFOLIO WOULD INCREASE EARNINGS

In calendar year 1986, the Redevelopment Agency's portfolio earned an average yield of 6.9%, whereas the City's portfolio averaged 8.0%, a difference of 1.1% or 110 basis points. The Agency's portfolio would have earned an additional $1,276,000 in 1986 had its earnings matched the City's. By combining the City and Redevelopment Agency investment portfolio, 1) Treasury would provide additional protection against short-term cash shortages in the Redevelopment Agency's portfolio and 2) Redevelopment yield rates could be increased to a level approaching that of the City's.

Redevelopment Portfolio Performance

TABLE IV illustrates how poor the yield performance of the Redevelopment portfolio was in 1986. Specifically, TABLE IV compares the Redevelopment Agency's portfolio performance to that of the City of San Jose and eight other California cities and counties.

TABLE IV

COMPARISON OF THE REDEVELOPMENT AGENCY'S PORTFOLIO PERFORMANCE TO THAT OF THE CITY OF SAN JOSE AND EIGHT OTHER CALIFORNIA CITIES AND COUNTIES IN 1986

City or County	Yield	Days to Maturity
San Jose Redevelopment	6.9%	65
A	7.4	112
B	7.4	120
C	7.6	211
D	8.3	225
San Jose City	8.0	249
E	9.2	273
F	8.1	291
G	9.9	904
H	10.6	962
AVERAGE	8.6%	387

As shown above, the Redevelopment Agency had the lowest yield and the shortest maturity period of the other cities and counties surveyed. Further, as discussed in FINDING I, there is a direct correlation between investment days to maturity and investment yield. Accordingly, with such a short average maturity, the Redevelopment portfolio's performance is inordinately low. Conversely, in order for Treasury to materially increase the yield on the Agency's portfolio it will be necessary to extend the maturity period. This could be accomplished by merging the City and Redevelopment Agency investment portfolios.

Agency Earnings Projection

The following illustrates how we arrived at the potential Redevelopment portfolio earnings for calendar year 1986. Specifically, we made our estimate by matching the Agency's 1986 portfolio yield to that of the City's.

TABLE V

POTENTIAL REDEVELOPMENT PORTFOLIO
EARNINGS-CALENDAR YEAR 1986

Month	Balance
January	$ 128,000,000
February	125,000,000
March	121,000,000
April	120,000,000
May	109,000,000
June	90,000,000
July	90,000,000
August	126,000,000
September	124,000,000
October	121,000,000
November	121,000,000
December	112,000,000
TOTAL	$1,387,000,000

Divide by 12 =

$116,000,000

$116,000,000 x 110 Basis (8.0% - 6.9%) = $1,276,000

It should be noted that the above estimate is not intended to be exact. Rather, our intention is to illustrate the increased earnings potential in the Redevelopment Agency's portfolio. The increased earnings we have estimated may actually be significantly less because the liquidity requirements of the Redevelopment portfolio could shorten the overall days to maturity of the merged City/Agency portfolio. However, given that the Agency's portion of a merged City/Agency portfolio is only about 20% of the total, overall days to maturity should not be materially shortened. In addition, any marginal drop in days to maturity could be mitigated by Treasury investing in selected longer term instruments and exercising increased trading discretion as discussed in FINDINGS I and II.

During our audit, we were unable to find any specific legal criteria which enabled or prohibited the combining of the City and Redevelopment portfolios for investment purposes. Therefore, the Administration needs to determine if such an action is permissible before any further action can be taken.

CONCLUSION

Merging the City and Redevelopment Agency portfolios would result in increased earnings for the Redevelopment Agency investment portfolio.

RECOMMENDATION

We recommend that:

Recommendation #4:

The Administration determine if there is any legal impediment to merging the portfolios. If not, the Administration should initiate merging the City and Redevelopment portfolios for investment purposes.

C I T Y   O F   S A N   J O S E - M E M O R A N D U M

TO: Finance Committee	FROM: Edward G. Schilling Director of Finance
SUBJECT: RESPONSE TO INVESTMENT PERFORMANCE AUDIT	DATE: June 12, 1987
APPROVED	DATE

RECEIVED
JUN 12 1987
CITY AUDITOR

BACKGROUND

The Finance Department received a draft report of the Phase I City and Redevelopment Agency Investment Program Audit on June 11. Since the conclusions and preliminary recommendations had been discussed with staff prior to issuance of the draft, and because there was substantial agreement between Finance and the Auditor on findings and recommendations, Finance was able to develop a written response in short order. However, the desirability of a quick turn-around of the Audit response provided little time for review of the recommendations by members of the Redevelopment Agency staff. Consequently, Recommendation #4 which recommends merging City and Agency investment portfolios has not been reviewed sufficiently by management to allow for a conclusive response.

The Finance Department and City administration are supportive of both the findings and recommendations in the Audit Report. The following responses are intended to advise the City Council of the current status of the Investment Program elements which would be affected by implementation of Audit recommendations.

Recommendation #1

Treasury analyze the City and Redevelopment Agency portfolios and develop a strategy to extend the average maturities of these portfolios when appropriate investment opportunities become available.

Response

Treasury staff has been working on a detailed reconstruction of the City's cash flow forecast for several months. The project is complex and will stretch into the winter of 87-88, but the results are expected to support current estimates that 25-30% of the portfolio is available for strategies not specifically linked to meeting day-to-day operational cash flow requirements. Treasury supports the concept of segregating the portfolio in this manner.

Strategy has been restricted by Investment Policy parameters and management information, e.g. cash flow forecasts. The timing of maturity extensions in a hold-to-maturity environment becomes very critical. For example, extensions executed too "soon" (while the yield curve is relatively flat and/or the level of interest rates appears to have bottomed out) will carry an opportunity cost when the slope and level of the yield curve changes. Anticipating these changes becomes a part of strategy in order to mitigate the effect of market value declines of lower-yielding instruments. Judgment, though made by fallible human beings, is the only foundation for strategy. As is true of most business deliberations, factors considered in formulating strategy include both technical and fundamental assessments of the marketplace.

Exhibit I displays a series of yield curves graphed over the past year. Yield curves change from second to second, so at best the Exhibit provides snapshots of a few moments in time. These are presented to illustrate a few trends. From April 1986 through December 1986, the curve for 0-3 year maturities (those maturities prescribed by the Investment Policy) stayed fairly flat. In fact, in December one would have had to extend into the 4-year maturity range to capture an additional 50 basis points. Some heightening at the longer end of the curve foretold a potential change. In November 1986, staff informed the Private Sector Panel that more aggressive maturity extensions might begin if there were opportunities to do so.

Exhibit II sets forth the pattern of maturity extensions as compared to yield patterns in the City's portfolio. The most aggressive month of extending was April 1987 when the yield curve steepened most dramatically. The steepening is also illustrated in the third window of Exhibit I. The City's portfolio currently holds over $200 million in maturities ranging from 1-3 years. About $90 million of the $450 million portfolio is comprised of 2-3 year maturities.

This discussion has been a simplified presentation of strategy similiar to those given to the Internal Investment Committee and Private Sector Investment Panel. City Council is kept informed of strategy through the monthly investment reports. As the Auditor discusses in Finding II, what is missing in the investment program is explicitly authorized flexibility to quickly adapt the portfolio to changes in judgment or market conditions or both.

Treasury concurs with Finding I and its corollary recommendations.

Recommendation #2

The internal and external investment committees consider extending the current investment policy restrictions for investment maturities.

Response

Treasury concurs with the recommendation to ask the City's policymakers to consider permitting longer maturities in the Investment Policy. A pragmatic approach to the change in the Policy may be to phase in extended maturity dates and limiting the holdings in different maturity sectors by setting corresponding caps defined as percentages of the portfolio. The benefits of redefining the Investment Policy's restrictions would include capturing more basis points of yield. A potential risk is that the market value of the portfolio may be more sensitive to changes in levels of interest rates. However, as the Auditor discusses in Finding II, even this risk can be mitigated given a change in strategy.

Recommendation #3

The City's internal and external investment committees consider easing the City's investment policy on holding investments to maturity to allow sales of certain investments when it can be demonstrated that it is in the City's best interest to do so.

Response

Treasury concurs with this recommendation. The concept of repositioning or swapping is currently under review by the Internal Investment Committee.

That strategy could be considered by the Private Sector Investment Panel in conjunction with its review of the Investment Performance Audit. Treasury would not propose to enter into this type of program without careful analysis and preparation. As noted on page 14 of the Audit Report, a consequence of a repositioning strategy would be the possibility of recording accounting (not dollar-based) losses in the Monthly Investment Reports. That perceived loss is much less of a concern to staff than the actual opportunity losses which are incurred as a result of the current passive investment strategy.

Specific instruments in a portfolio cannot be brought before the committees for pre-approval as candidates for swaps because market conditions change rapidly and could either diminish or eradicate the appeal of a particular transaction. Treasury would seek the general authorization described by the Auditor with further qualifications that: 1) the economic benefits of all executed swaps be quantified and documented, and 2) the City's monthly portfolio turnover ratio (purchases, sales and maturities - average daily portfolio balance) not exceed a benchmark which is intended to reflect an upper limit of trading activity; e.g. 3.0 or 3.5.

Recommendation #4

The Administration determine if there is any legal impediment to merging the portfolios. If not, the Administration should initiate merging the City and Redevelopment portfolios for investment purposes.

Response

Treasury and Redevelopment Agency fiscal staff have discussed preliminarily the possible advantages and disadvantages of using the same bank for City and Agency banking services. Clarification of the legal framework under which such a change could be make is required before a management recommendation is formulated. The recommendation to merge investment portfolios requires similar clarification of possible legal obstacles before the advantages and disadvantages of that change can be fully evaluated.

Finance Department staff concurs with the Auditor's basic finding that the Agency's yield could be increased by merging portfolios. Additionally, the efficiency of Treasury operations could be improved by managing the funds as part of one portfolio instead of two. In addition to the legal question discussed above, issues that would need to be addressed in a further review of this recommendation include the need to provide sufficiently detailed information on Agency fund balances under a merged portfolio and the projected effect on City portfolio earnings of assuming the Agency's current investments and higher liquidity requirements.

The Director of Finance will request from the Agency a legal opinion on the related issues of merging City and Agency banking services and investment portfolios. Upon receipt of that opinion and its discussion of the obstacles which might stand in the way of consolidating these banking and investment activities, City and Agency management will review the administrative and policy consequences of a possible change in formulating a recommendation for consideration of the City Council/Agency Board.

Respectfully submitted,

EGSchilling

Edward G. Schilling

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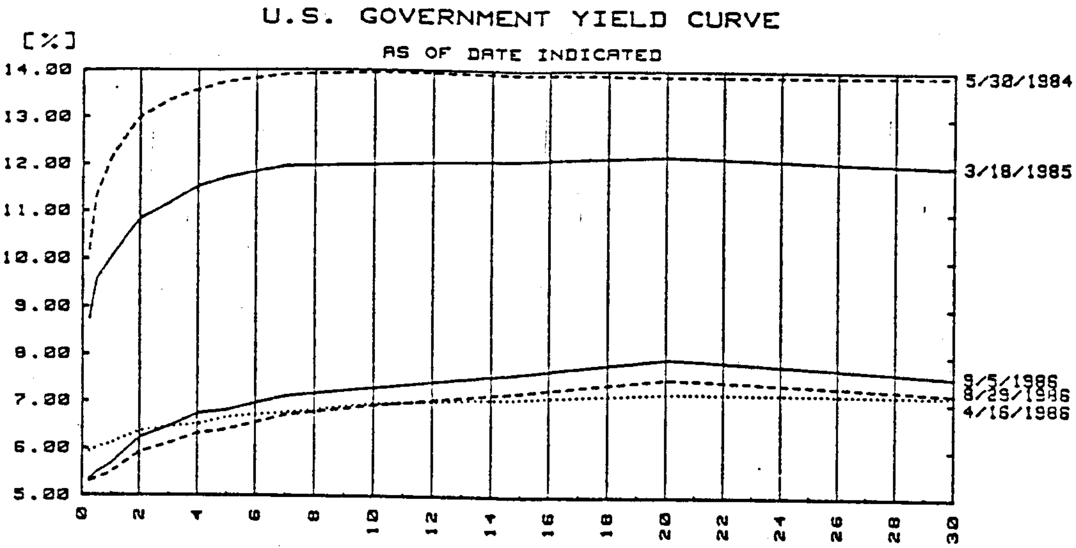
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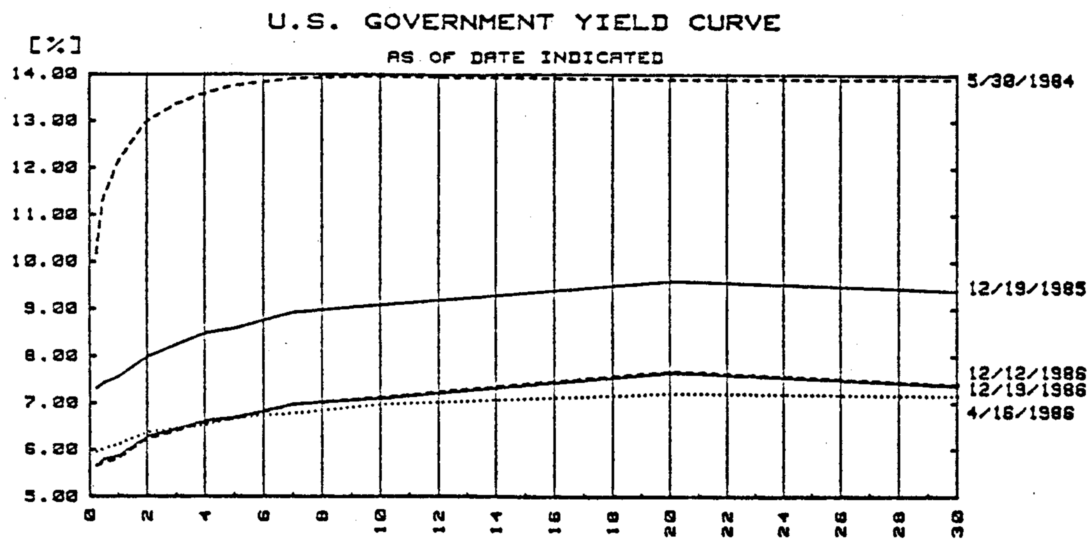
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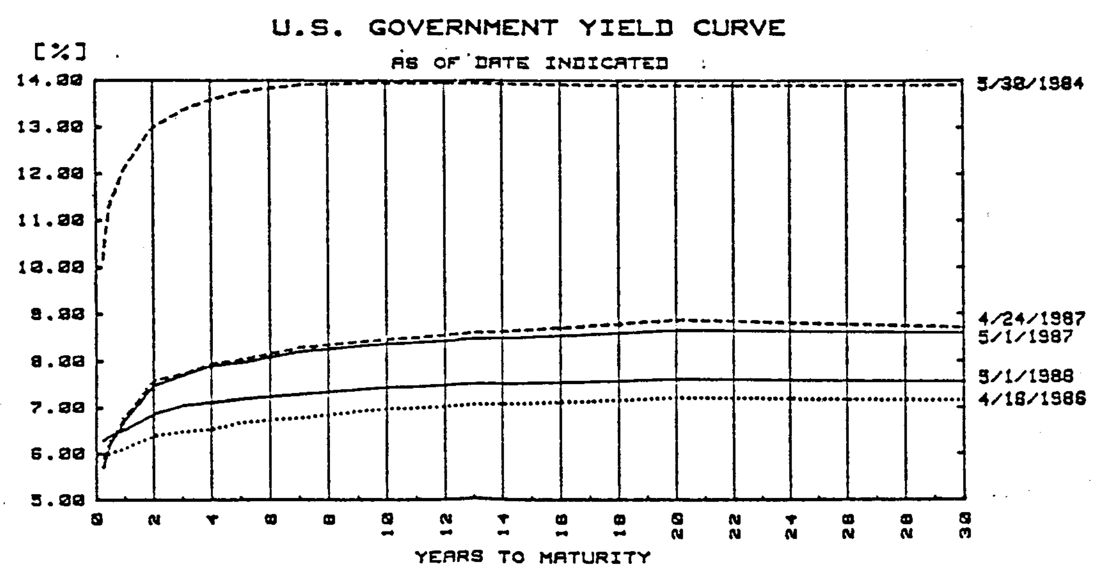
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AS OF DATE INDICATED
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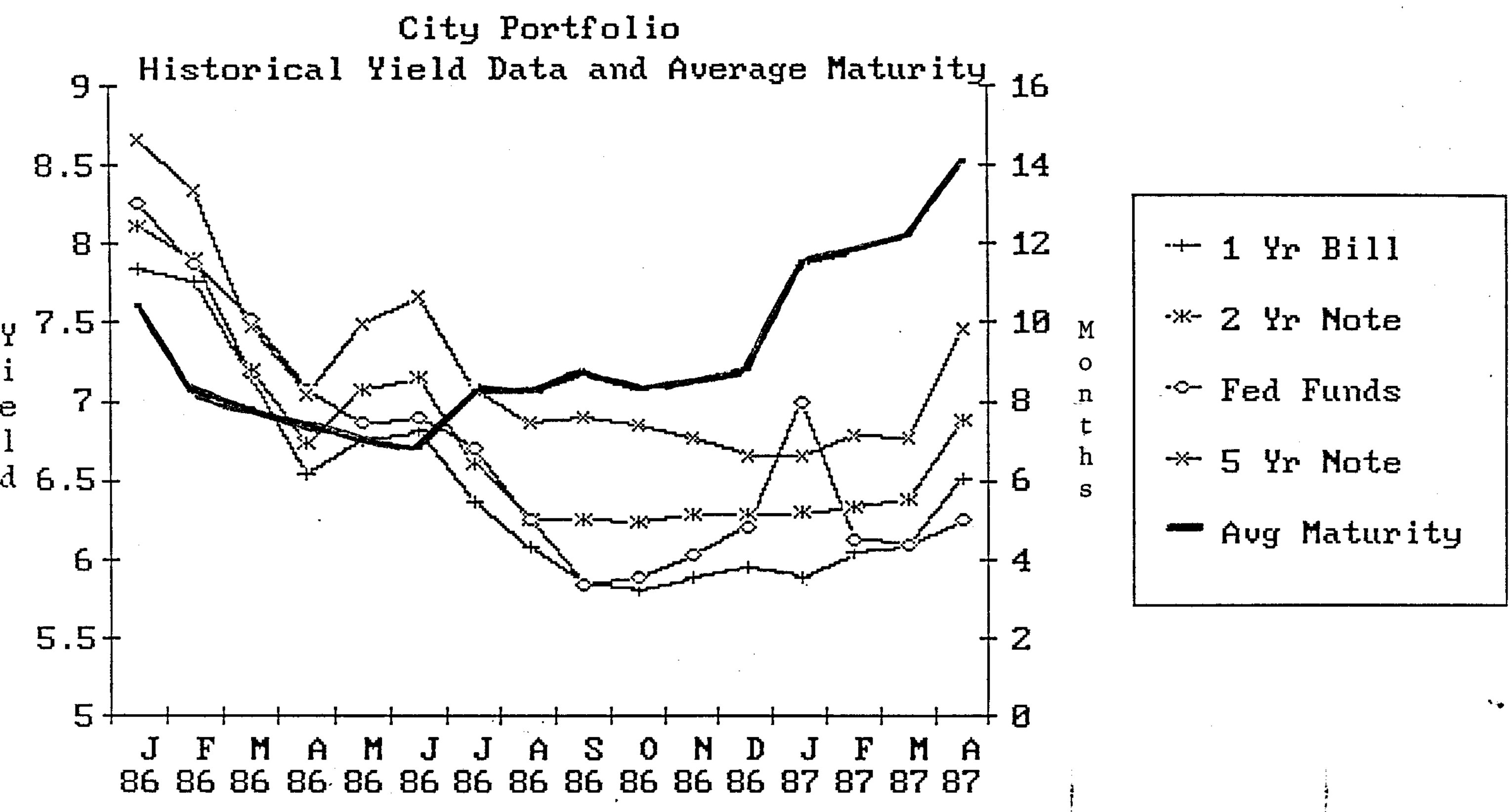
4/16/1986
YEARS TO MATURITY

Exhibit I



City Portfolio
Historical Yield Data and Average Maturity
Yield
Months
9
8.5
8
7.5
7
6.5
6
5.5
5
16
14
12
10
8
6
4
2
0
J 86
F 86
M 86
A 86
M 86
J 86
J 86
A 86
S 86
O 86
N 86
D 86
J 87
F 87
M 87
A 87
1 Yr Bill
2 Yr Note
Fed Funds
5 Yr Note
Avg Maturity

Exhibit II